

Message Text

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ACTION EUR-10

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 NSC-10 NSCE-00

EB-03 SPC-01 COME-00 OMB-01 L-02 CIAE-00 INR-10

NSAE-00 RSC-01 CIEP-01 DODE-00 DRC-01 EA-13 /069 W

----- 059487

R 101113Z SEP 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7332

INFO AMEMBASSY TOKYO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY LONDON

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 13012

LIMDIS

DEPARTMENT PASS FEDERAL RESERVE AND TREASURY FOR
UNDER SECRETARY VOLCKER AND S. CROSS

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN VIEWS ON INTERNATIONAL MONETARY
QUESTIONS

1. SUMMARY: FINANCE MINISTRY STATE SECRETARY POEHL
IN A CONVERSATION WITH THE AMBASSADOR STRESSED THAT
THE KEY POINTS FOR GERMANY IN INTERNATIONAL MONETARY
REFORM WERE: (1) NO AUTOMATIC PRESSURE OR AUTOMATIC
PENALTY INTEREST ON SURPLUS COUNTRIES, (2) GREAT
CAUTION IN EXPANDING INTERNATIONAL LIQUIDITY AND
(3) FULL LEGITIMATIZATION OF FLOATING AS ONE OF THE
INSTRUMENTS OF INTERNATIONAL MONETARY
POLICY. POEHL FELT THE ECONOMIC COOL DOWN MIGHT
WELL COME IN GERMANY BEFORE IT DID IN THE US, BUT
NOT IN TIME TO PREVENT ANOTHER ROUND OF INFLATIONARY
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WAGE INCREASES. THE AMBASSADOR TOOK UP WITH POEHL

THE US POSITION ON OFFSET AND LEFT HIM AN INFORMAL TALKING PAPER PREVIOUSLY ALSO GIVEN TO STATE SECRETARY FRANK AS WELL AS A COPY OF THE JACKSON-NUNN AMENDMENT.
END SUMMARY

2. THE AMBASSADOR AGAIN MET ON SEPTEMBER 10 WITH FINANCE MINISTRY STATE SECRETARY POEHL FOR AN EXCHANGE OF VIEWS ON INTERNATIONAL MONETARY AFFAIRS. POEHL HAD JUST RETURNED FROM THE PARIS MEETING OF THE C-20 DEPUTIES WHICH HE CHARACTERIZED AS HAVING BEEN DIFFICULT AND MAKING PROGRESS ONLY AT A SNAIL'S PACE. HE SAID THAT WHILE, OF COURSE, IT HAD TO BE EXPECTED THAT THE DEPUTIES WOULD "ADD SOME WATER TO THE HEADY WINE OF AGREEMENT AND COMPROMISE" OF THE LAST C-20 MINISTERIAL MEETING, HE NEVERTHELESS FOUND IT DIFFICULT TO UNDERSTAND THE HARSH POSITION TAKEN BY SOME--AND PARTICULARLY THE FRENCH--AT THE PARIS MEETING. POEHL ALSO WAS CRITICAL OF CHAIRMAN MORSE AND FELT THAT HE WAS TOO CAUTIOUS IN PUTTING FORWARD THE FORMULATIONS AND COMPROMISES WHICH THE CHAIRMAN HAD TO SUPPLY IF AN UNWIELDY BODY AS THE C-20 DEPUTIES WAS TO MAKE PROGRESS. POEHL FELT THAT AFTER NAIROBI A SMALLER BODY WOULD HAVE TO BE CONSTITUTED, POSSIBLY A DRAFTING GROUP OF FIVE OR SIX PEOPLE.

3. CONCERNING THE SUBSTANCE OF MONETARY REFORM, POEHL SAID THAT THERE WERE THREE POINTS ESSENTIAL TO THE FRG AND WHICH THE FRG WOULD STRESS AT NAIROBI:

(A) THE FRG COULD NOT ACCEPT ANY AUTOMATIC PRESSURE ON SURPLUS COUNTRIES AND MOST CERTAINLY NOT AN AUTOMATIC NEGATIVE PENALTY INTEREST ON SURPLUS RESERVES. AFTER ALL, IN CASE OF MONEY FLOWS A COUNTRY OFTEN COULD NOT ITSELF PREVENT THE ACCUMULATION OF SURPLUSES. NEGATIVE INTEREST RATES AND OTHER PRESSURES COULD NOT BE AUTOMATIC, BUT ONLY AFTER A DECISION BY AN INTERNATIONAL BODY THAT THEY WERE WARRANTED IN A PARTICULAR CASE.

(B) THE FRG FEELS THAT ONE SHOULD PROCEED VERY
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CAUTIOUSLY IN CREATING ANY MORE INTERNATIONAL LIQUIDITY. POEHL SAID THAT HE REALIZED THAT SOME SUCH ADDITIONAL LIQUIDITY CREATION WAS INEVITABLE, BUT IT OUGHT TO BE KEPT WITHIN VERY STRICT LIMITS.

(C) THE FRG FELT VERY STRONGLY THAT THE POSSIBILITY OF FLOATING MUST BE LEGITIMATIZED IN THE REFORMED INTERNATIONAL MONETARY SYSTEM.

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R 101113Z SEP 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7333

INFO AMEMBASSY TOKYO

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 13012

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4. CONCERNING THE CURRENT ECONOMIC SITUATION, POEHL SAID THAT HE WAS AFRAID THAT THE COOLING OFF OF THE GERMAN ECONOMIC SITUATION WOULD COME TOO LATE TO AFFECT WAGE SETTLEMENTS THIS FALL AND THESE MIGHT GIVE GERMAN INFLATION ANOTHER PUSH. ON THE OTHER HAND IT LOOKED AS IF A COOLING OFF (IN REAL TERMS) MIGHT COME IN GERMANY BEFORE IT DID IN THE OTHER COUNTRIES, INCLUDING THE US. GERMANY THUS COULD BE EXPERIENCING INTERNAL STAG-FLATION AND A FURTHER PUSH INTO EXPORTS EARLY IN L974.

5. POEHL SAID THAT HE ALSO WAS WORRIED ABOUT THE EC SNAKE. IT NOW LOOKED AS IF THE UK AND ITALY MIGHT JOIN THE SNAKE SOME DAY IN THE NOT TOO DISTANT FUTURE. GERMANY HAD NO INTEREST IN HAVING THE UK AND ITALY JOIN THE SNAKE BECAUSE THIS WOULD MAKE IT SO MUCH LESS STABLE AND MORE SUBJECT TO A BREAK-

UP. BUT WHILE GERMANY CERTAINLY WAS NOT WILLING TO
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PAY TO FACILITATE THEIR JOINING THE SNAKE, IT OF
COURSE COULD NOT PREVENT THE TWO COUNTRIES FROM
DOING SO.

6. POEHL THEN BROUGHT UP THE QUESTION OF FOREIGN
INVESTMENT IN THE US AND REFERRED TO SOME RECENT
MOVES IN THE US CONGRESS DESIGNED TO RESTRICT
SUCH INVESTMENTS. POEHL STRESSED THAT SUCH MOVES
WOULD FIND NO UNDERSTANDING WHATSOEVER IN GERMANY
PARTICULARLY IN VIEW OF THE LARGE US INVESTMENT
IN GERMANY. THE AMBASSADOR ASSURED POEHL THAT THESE
WERE INITIATIVES OF PARTICULAR CONGRESSMEN AND DID
NOT HAVE THE BACKING OF THE ADMINISTRATION. POEHL
AGAIN STRESSED THE VERY UNDESIRABLE CONSEQUENCES
IF SUCH BILLS SHOULD BE ENACTED.

7. THE AMBASSADOR RAISED THE OFFSET PROBLEM WITH
POEHL ALONG THE LINES OF STATE 174640 AND LEFT HIM
A COPY OF THE INFORMAL PAPER PREVIOUSLY
GIVEN TO STATE SECRETARY FRANK (BONN 12732) AS WELL
AS A COPY OF THE JACKSON-NUNN AMENDMENT TO HR 9286.
HILLENBRAND

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